

# MICHIGAN INSURANCE BUREAU

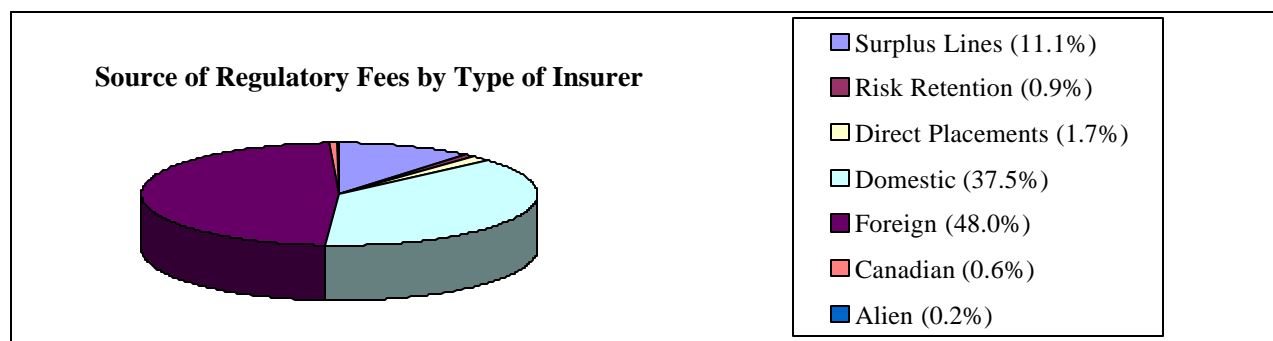
## Report on Regulatory Fees

### Fiscal Year Ended 1999

This report is submitted pursuant to Section 224a of PA 228 of 1994. It examines regulatory fees collected in accordance with Section 224 of the Insurance Code of 1956, MCL 500.224. Section 224a of the Insurance Code of 1956, MCL 500.224a requires the examination of the allocation of the fees among the type of carriers, how the fees were expended in regulating the insurance industry and whether new regulatory policies are needed.

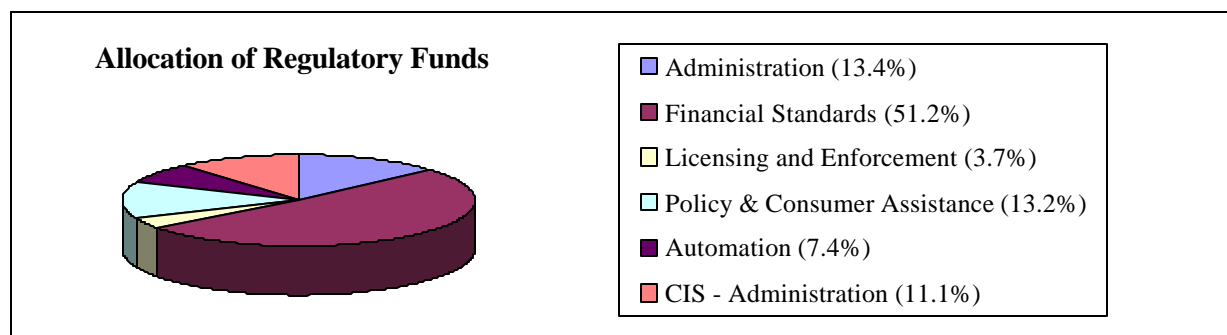
#### Revenues Raised by Regulatory Fee

Total revenue raised from regulatory fees during FY99 was \$9,722,058. Of the total, an estimated \$8,387,507 came from admitted insurers and related entities conducting business in Michigan. The remaining \$1,334,551 was estimated to have been paid by surplus lines insurers, risk retention groups and direct placements. The table at the end of this narrative provides a detailed breakdown of revenues. The chart below contains a breakdown of the sources of the Bureau's funds.



#### Expenditure of Regulatory Fees

The Insurance Bureau expended \$8,925,486 in regulatory fees to fund the programs described below. Another \$1,107,891 was expended for Department of Consumer and Industry Services administration and overhead. The chart below contains a breakdown of funds allocated to each of the Bureau's programs and CIS Administration.



### Administration

The objectives of the Division of Management Support are to communicate the commissioner's overall policy direction for regulating the insurance industry in Michigan, to manage the conduct of contested case hearings, and to provide essential administrative support services to Bureau staff to allow them to meet their goals and responsibilities in a timely and efficient manner.

The division also manages the hearing of cases brought in accordance with the Administrative Procedures Act, which typically involve such issues as disciplinary actions against licensees, appeals by insurers regarding rates, forms or activities disapproved by the Bureau, and requests for exemptions from certain provisions of the Insurance Code. The administrative program also has responsibility for providing essential administrative support services such as personnel, accounting, budget preparation and control, facilities management, reception services, and related areas. Systems planning and development is another important facet of this program with responsibility for maintaining the Michigan Insurance Bureau Integrated Information System (MIBIIS) within the Bureau. It also evaluates and implements new technology and processes for use by Bureau employees.

### Financial Evaluation

The objective of the Office of Financial Evaluation is to regulate the business of insurance in Michigan in a manner that will ensure a financially stable, reliable industry in the State, grant consumers access to a wide variety of products, and promote consumer confidence in the insurance industry in Michigan.

The office processes all insurer applications for admission to conduct business in Michigan. It ensures that the insurers are financially sound and meet all statutory requirements and performs in-depth analyses of financial statements filed by all insurers and targets potential problem insurers for further review. This office conducts, on a regular schedule, on-site examinations of the books and records of insurers and issues examination reports of their findings. When it is determined that an insurer is financially troubled, the office takes prompt and orderly steps to rehabilitate or liquidate the insurer in the best interests of Michigan policyholders.

### Licensing and Enforcement

The major objectives of the Office of Licensing and Enforcement are to ensure that provisions of the Insurance Code are enforced through investigation of complaints of alleged violation, and initiation and prosecution of compliance actions against agents, agencies, and companies who are found to be in violation. It provides assistance and educational information to consumers and ensures that the agents who sell insurance products possess reasonable minimum qualifications. It tracks the status of filings from insurers through the processing and auditing of form, rate and rules filings.

The office is responsible for the examination and approval of individuals seeking licensure as agents, solicitors, adjusters, counselors, third party administrators, and preferred provider organizations. It ensures that licensed agents have access to, and complete, continuing education requirements. The office processes and collects an annual fee from insurers for all licensed individuals who sell their

products. Through the investigation and compliance process, the office attempts to identify problem companies or individuals and vigorously prosecutes those determined to have violated the provisions of the Insurance Code.

The objective of the rates and forms audit unit are to ensure that insurance contracts issued to Michigan policyholders properly cover that which they purport to insure and that rates are not excessive, inadequate or unfairly discriminatory. It thus, protects the public interest and confidence in the product they have purchased. Insurers may only use rates and forms subject to compliance audits and, where applicable, approved by the commissioner.

#### Policy and Consumer Services

The objective of the Office of Policy and Consumer Services is to ensure that statutory requirements and Bureau policies are met by insurers and to aid consumers with insurance coverage problems and questions. The office also oversees prepaid health and dental care corporations and multiple employer welfare arrangements operating in the state. Inquires regarding health benefits are directed to the benefit inquiry unit of the Health Plans Division for response.

A large volume of inquiries and complaints are received and resolved via telephone, in writing, and in person by the consumer services unit. The division's communications center receives hundreds of calls a day at its new toll free number 1-877-999-6442. The unit, as required by law, also completes informal reviews of insurance coverages. Through consumer service activities, the Bureau becomes aware of, and is able to address potential problems with either products or insurers.

The research unit develops bulletins and guidelines to clarify and communicate the commissioner's policy positions, drafts and processes administrative rules, analyzes all bills of interest to the Bureau. It prepares reports on various insurance issues and topics, performs rate surveys, assists in implementing new legislation, drafts proposed legislation, and researches new issues in insurance.

The surplus and special lines unit is responsible for the collection, tracking, reconciling and auditing of the premium tax paid by policyholders, licensed resident agents, purchasing groups and risk retention groups for coverage placed with an insurer who is not "admitted" or licensed in Michigan. The unit reviews the surplus lines insurance written in Michigan to verify that it was properly placed and was the type of coverage that was unavailable from the normal or admitted insurance market. The unit is also responsible to process requests from purchasing groups including applications for registration, changes to the registration record, and the annual renewal report.

#### Insurance Automation

The insurance automation program supports the Bureau's use of automated information systems by providing equipment, software and contractual services support to Bureau employees.

CIS Administration

The Department of Consumer and Industry Services provides department-level services to the Insurance Bureau in the administrative areas of personnel, labor relations, accounting, budget, procurement, and network services.

**Need for New Legislation or Regulatory Policy**

The Michigan Insurance Bureau's primary mission is to provide excellent customer service and effectively regulate the insurance and managed care industry. To ensure that insurance companies transacting business in Michigan are safe, reliable, and entitled to public confidence, the Bureau performs ongoing analysis of quarterly and annual financial statements filed with the Bureau by 1,500 companies doing business in Michigan. The Commissioner of Insurance and Bureau personnel use the information to identify troubled insurers and then work with those companies to regain fiscal health.

The Michigan Insurance Bureau also licenses persons to sell insurance in Michigan. Licensure includes a pre-licensing test of applicants, and a review of licensed agents' compliance with the requirements of the Michigan Insurance Code. If necessary, enforcement actions are taken against those agents and agencies found in violation of the requirements of the code.

The Bureau continually reviews its internal practices to perform these duties. The Bureau is instituting changes in procedure to improve its company and agent oversight responsibilities. These changes do not require legislative action. The Bureau will bring to the legislature those changes in regulatory policy needed to protect Michigan citizens which require legislative approval.

There are several initiatives the Bureau will be interested in this legislative session. Some are listed below:

A priority will be the adoption of the Producer Licensing Model Act, to allow reciprocity of agent and producer licensing across states. This legislation needs to be passed by June of 2002.

Another priority will be the adoption of the Interstate Compact Uniform Receivership Law to bring Michigan's Code into line with the requirements necessary for the uniform handling of receiverships across state lines.

Also, the Bureau will seek to both streamline the legislatively mandated reports and eliminate unnecessary claims reporting.

**Michigan Insurance Bureau  
Regulatory Fee Assessments and Expenditures  
Fiscal Year 1999**

**Regulatory Fees Carry Forward From Fiscal Year 1998:** **3,007,223**

Adjustments for Fiscal Year 1998 Expenditures 239,214

Estimated Payments From Unauthorized Carriers in FY 1999:

Surplus Lines	1,082,561	
Risk Retention	85,224	
Direct Placements	<u>166,765</u>	
Subtotal:		1,334,551

Estimated Payments From Authorized Insurers in FY 1999:

Domestic	3,646,130	
Foreign	4,669,105	
Canadian	53,297	
Alien	<u>18,975</u>	
Subtotal:		<u>8,387,507</u>

Total Regulatory Fees Collected During Fiscal Year 1999: 9,722,058

**Total Available Regulatory Fees Funding:** **12,968,495**

Insurance Bureau Expenditures:

Administration	1,344,601	
Financial Standards	5,139,352	
Licensing and Enforcement	372,400	
Market Standards	1,324,690	
Automation	<u>744,444</u>	
Subtotal:		8,925,486

Consumer and Industry Services - Administration/Overhead: 1,107,891

**Total Expenditures Supported By Regulatory Fees:** **10,033,377**

**Carry Forward to Fiscal Year 1999:** **2,935,118**